HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Winnipeg CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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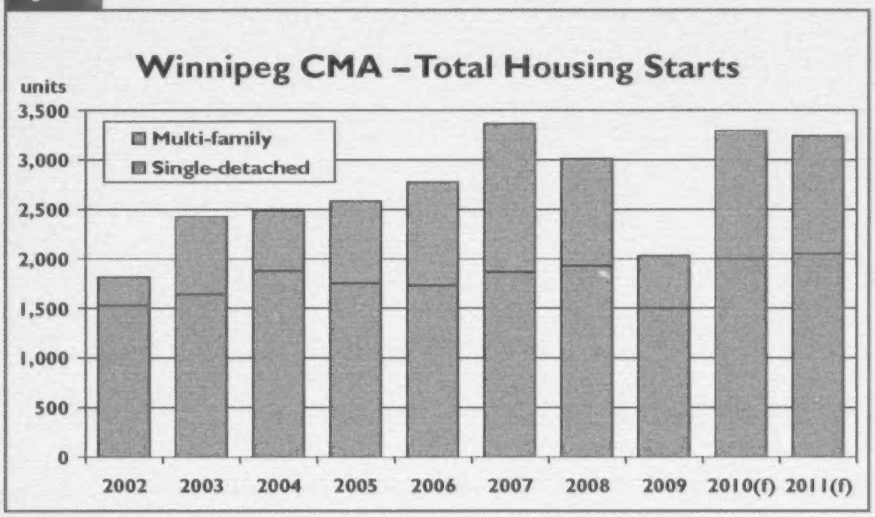
NEW HOME MARKET

Recovery to persist in 2011

After a relatively weak performance in 2009, home builders in the Winnipeg Census Metropolitan Area (CMA) are on pace to start construction on 3,300 homes by the end of 2010. This represents an increase of 62 per cent over the previous year. To the end of September 2010, total starts numbered 2,604, running 73 per cent ahead of where they were at the end of September 2009. This was thanks in large part to an increase in multi-family construction, which at 1,125 units to the end of September 2010, was two and one half times the number of units started by September 2009. Single-family starts have also

Figure 1



Source: CMHC, CMHC Forecast (f)

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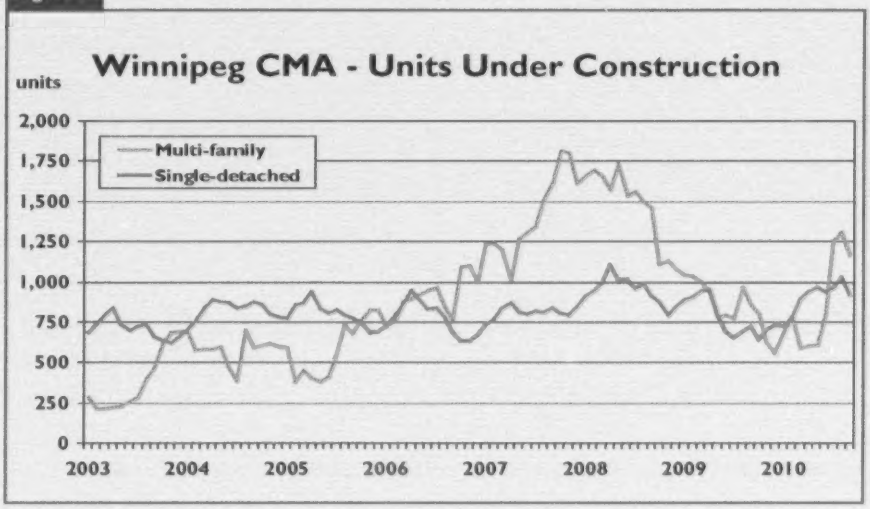
1 The forecasts included in this document are based on information available as of October 08 2010.

experienced healthy gains, posting a year-to-date total of 1,479 units to the end of September. This represents an increase of 40 per cent over the same period of the previous year.

This elevated pace of construction will be a challenge to maintain and starts are expected to moderate in 2011. Factors supporting demand for new homes will persist in 2011, including a continued economic recovery which will result in steady employment and wage gains. Population increases, particularly from immigration, will also be maintained. On the downside, however, forecasted increases in price will raise carrying costs and soften demand for new homes. In addition, there will be slightly more competition from the resale market due to an increase in listings. On balance, total starts are expected to post a slight decrease of 1.5 per cent in 2011.

Figure 2



Source: CMHC

Single-detached starts to stay steady in 2011

Single-detached starts are on pace to end 2010 with 2,000 units, 33 per cent ahead of 2009. With the exception of January, every month in 2010 has thus far seen a substantial year-over-year increase over the corresponding month of 2009. Meanwhile, the supply of single-detached homes, which includes complete and unabsorbed units and those under construction, has been climbing steadily to reach 1,123 units in September 2010, an increase of 22 per cent over September 2009. Considering a 12-month moving average rate of absorption of approximately 140 units per month, this represents eight months of supply.

Since much of the increase in construction activity occurred during the summer months, most of this supply is still in the construction phase. The inventory of complete and unabsorbed units has been rising, but at 204 units at the end of September 2010, is almost equal to the 199 units at the end of September 2008 and in line with the five-year average. At the current rate of absorption, this inventory would last less than two months, up slightly from the one month of inventory that existed earlier this spring. With inventories on the way to being replenished by the increase in construction, single-family starts will post a modest 2.5 per cent gain in 2011 to reach 2,050 units and the best performance since 1989.

New house price increases moderating

The year-to-date average price of a new house in the Winnipeg CMA to the end of September 2010 stood at $370,261, an increase of just over one per cent from the corresponding period last year. This is in sharp contrast to one year earlier when the average price gain under the same comparison was near five per cent. The moderation in average price growth in 2010 is largely compositional, as the share of units below $375,000 to the end of August has risen from 66 per cent in 2009 to 70 per cent in 2010. Increases in average price will continue to be moderate, remaining around four percent in 2010 and 2011, as buyers will be drawn to more modestly priced units.

The New House Price Index (NHPI) measures changes over time in selling price of a new house, where detailed specifications pertaining to each house remain the same between two consecutive periods. This eliminates the effect that market composition can have on comparisons between average prices. Following a 2.5 per cent increase in 2009, the year-to-date average NHPI to the end of August 2010 advanced 3.3 per cent. After some stability in 2009, the land component of the NHPI has begun to increase at a greater rate, where the year-to-date average is almost five per cent higher than it was a year earlier. Going forward increases for the total

NHPI are expected to be moderate, averaging 4.6 per cent for 2010 and 4.0 per cent in 2011.

Multi-family starts to remain elevated

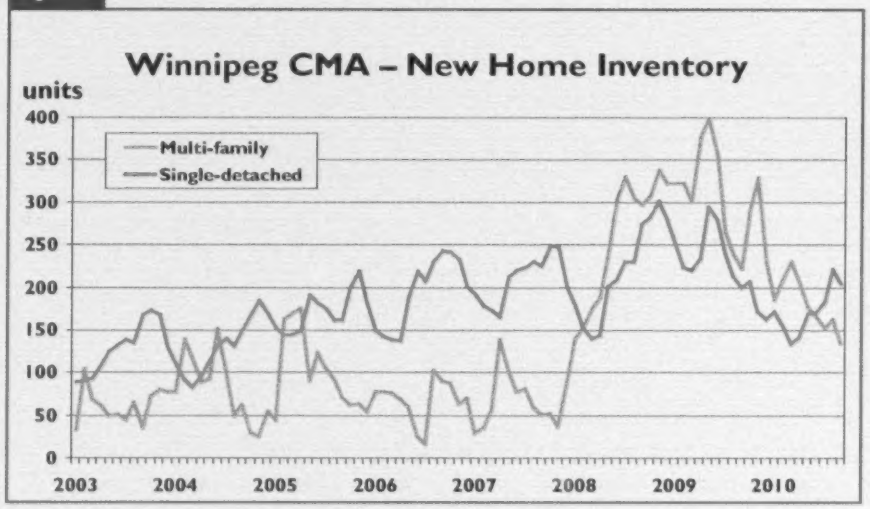
The multi-family sector, consisting of semi-detached units, rows and apartments, rebounded in 2010 and will end the year more than double the results of the previous year. Looking forward to 2011, multi-family starts will slow by almost eight per cent from the previous year. Multiple-family construction in the Winnipeg CMA can vary from year to year given the relatively small market where the development of two or three individual projects can result in significant variations in the growth rate. However, at 1,200 units next year, multiple-family starts will still remain well above the five year average of around 1,000 units.

Total multiple supply rising

With several projects breaking ground in 2010, the total supply of multiple-family units has risen substantially. At the end of September 2010 the supply numbered 1,300 units, 21 per cent more than it was at the corresponding period in 2009.

Units under construction make up the majority of the supply of multiple-family units. Of the 1,300 units noted above 1,116 were under construction at the end of September 2010, up 36 per cent from one year ago. Meanwhile, the inventory of complete and unabsorbed units, which peaked at 428 units in May 2009, reached 134 units in September, 40 per cent lower than the previous year and nearing the five-year average of approximately 162 units.

Figure 3



Source: CMHC

Rental construction continues to dominate

When looking at the multiple-family starts by tenure, rental construction has dominated activity in both 2009 and 2010. Rental starts during this period represented approximately two thirds of all multiple-family starts. At the end of September 2010, there were 740 rental units under construction, more than double the number of units under construction at the end of September 2009. Add these units to the mere 3 units in inventory and it results in a total supply of 743 units. It is expected that with persistently low vacancies and elevated net migration, many of these units will be absorbed quickly. Supply will need to be replenished and rental starts will continue at an elevated level into 2011.

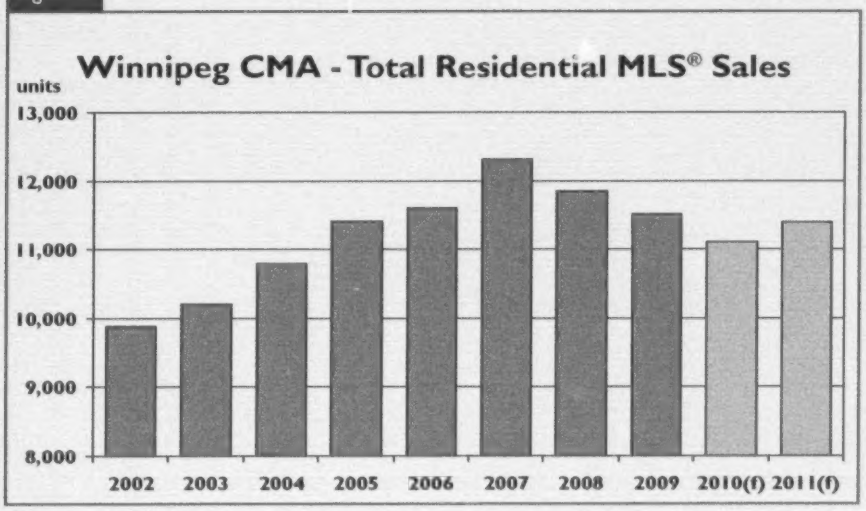
Condominium construction saw a slight revival in 2010. After seeing only 140 condo units started in 2009, condo starts to the end of September 2010 totalled 414 units. The slowdown in 2009 allowed the total supply of condo units to be draw down, and by the end of 2009 supply was at half the level it was at the end of 2008. Builders responded with new construction this year and this will persist into 2011.

RESALE MARKET

Existing home sales slow to climb back to previous levels

After strong sales gains in the beginning of this year, sales of existing homes have slowed in the latter part of this year. The spring of 2010 was particularly active as buyers hurried to purchase homes prior to the implementation of changes regarding the qualifying conditions for a mortgage and projected increases in the borrowing rate. In recent months, sales have slowed and as a result of this slowdown, total sales for 2010 will slip below 2009 levels, reaching 11,100 units. As a result, the existing home market will see its third consecutive year of decrease in sales.

Figure 4



Source: CREA, CMHC Forecast (f)

Conditions supporting homeownership will improve going into 2011, as job and earnings growth will remain positive. Elevated net migration levels will also support the demand for all types of housing, as will mortgage rates at near-record lows. Buyers will continue to enter the market in 2011 ready to purchase either their first home or a move-up home. Increases in activity will be modest however, as modestly rising carrying costs and a continued relative scarcity of desirable listings will restrict sales. Nevertheless, sales of existing homes in 2011 will reach 11.400 units, increasing 2.7 per cent from 2010.

Active listings slowly rising

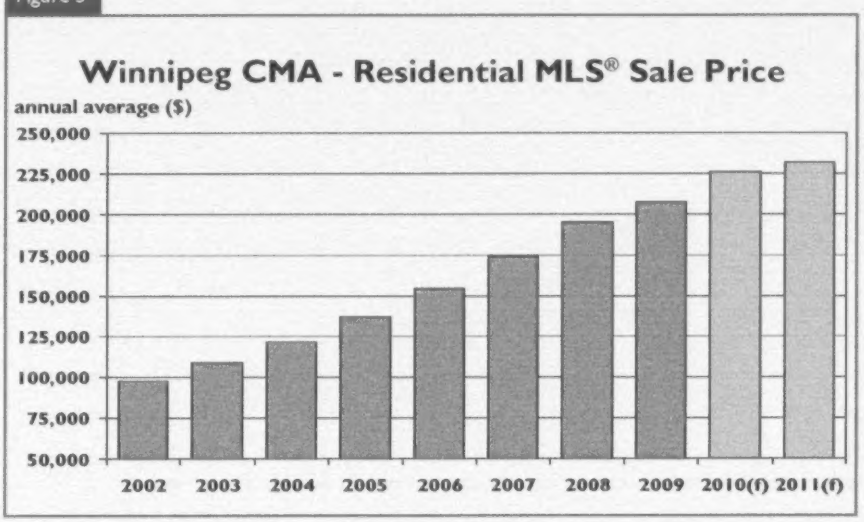
The supply of homes for sale in the existing home market has been persistently low and has not climbed above 2,000 units in almost 10 years. At the end of August 2010, there were approximately 1,500 homes for sale in the Winnipeg CMA, an increase of 21 per cent over the same time last year. In the last decade, the number of active listings available has averaged approximately 1,300 homes, in sharp contrast to the previous decade when there were over 4,300 homes on the market. We expect active listings to continue to rise, though the increases will still leave the number of homes listed at far below the long-term historical average.

With weak sales in the month of August, the sales-to-active listings ratio dipped to 63 per cent, down 27 percentage points from the same month last year. The number of active listings will continue to rise at a rate greater than the projected increase in sales, leading to a reduction in the sales-to-active listing ratio. As 2011 progresses, the market will return to more balanced conditions, thus slowing the pace of price growth.

Price growth will cool in 2011

Despite a third consecutive year of moderating sales, gains in average price will be fairly robust in 2010 with a forecasted increase of nine per cent to reach $226,000. This price increase will provide additional incentive for move-up buyers to list adding much needed supply. With a tendency towards more balanced conditions in 2011, average price increases will be more modest and stay under three per cent.

Figure 5



Source: CREA, CMHC Forecast (f)

RENTAL MARKET

Vacancy rates in the Winnipeg rental market have been relatively unchanged for the last nine years, fluctuating by only fractions of a percentage point and always remaining under 2.0 per cent. In October of 2009, the apartment vacancy rate was 1.1 per cent, among the lowest in history. This is not expected to change much for the October 2010 survey where the vacancy rate will increase to 1.2 per cent and rise fractionally to 1.4 per cent in 2011.

Figure 6

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Additions to the universe unlikely to keep pace with demand

For only the second time in the last 17 years, the Winnipeg rental apartment universe saw an increase in the number of units in 2009. This was the result of the completion of several rental projects as well as a large number of units under renovation that were returned to the market. Since the last survey period several more units have been completed and were absorbed quickly. Additions however continue to be offset by permanent removals either through demolition or conversion to condominium. This will leave little room for a relaxation of the vacancy rate in 2010. Moving forward, renters will benefit from the completion of more than 1,000 units currently under construction. Nevertheless, 1,000 units only represent 1.9 per cent of the total universe and will have a minor impact on the vacancy rate given an elevated level of demand.

Demand for rental housing is being fed by several factors. The province has been very successful in attracting international immigration, particularly through the Provincial Nominee Program. International immigration is at an all-time high according to records going back to 1970, and it has its strongest impact on the rental market as most new immigrants seek rental accommodation upon arrival. Renters currently considering a move to home ownership may find themselves having to delay this move temporarily given increasing prices in the resale market and more stringent mortgage qualifying conditions. As their financial situation strengthens under the province's positive economic climate, more renters will be able to move to home ownership over the course of 2011, making more units available.

Two-bedroom rents to increase in 2011

All residential rental properties including apartments, single rooms, houses and duplexes fall under the Province of Manitoba's legislated rent increase guideline. For 2010, the increase was set at one per cent, followed by a 1.5 per cent increase in 2011. There are exceptions to this guideline. For example newly constructed units are exempt for a period of 20 years, as are properties renting above $1,105 in 2010 ($1,120 in 2011). Landlords may also apply for an increase above the guideline if they can demonstrate it is not sufficient to cover their current expenses. In addition, units brought back to the market under a rehabilitation scheme may come back at an increased rent level and may enjoy a period of exemption for future increases. With these exceptions and with newly completed units coming on the market at the upper end of the rent scale, the average rent will increase at a rate above the legislated guideline. Accordingly, two-bedroom rents will increase to $835 in the October 2010 survey and to $860 in the October 2011 survey.

ECONOMIC OUTLOOK

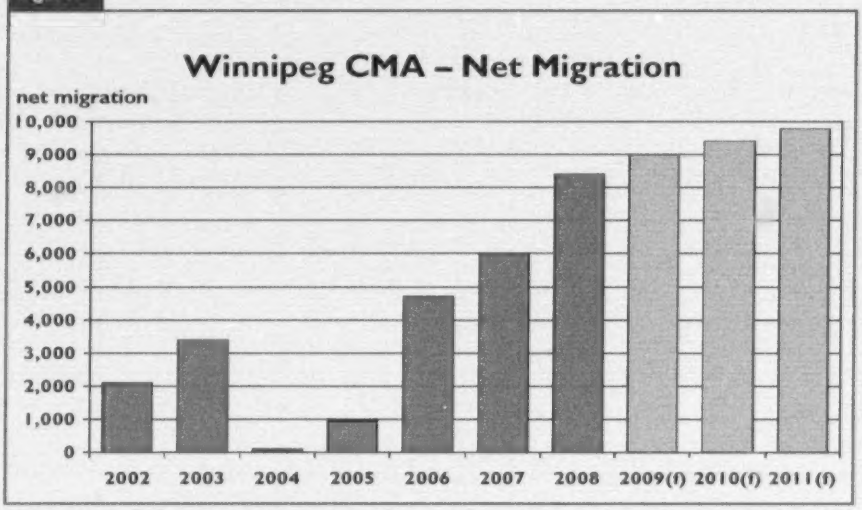
Economic recovery modest, but steady

In 2009 Winnipeg saw a modest drop in total employment of only 0.1 per cent, quite respectable considering the 1.6 per cent decline for the country overall. To the end of August 2010, Winnipeg has seen a one per cent increase in employment. However, all of these gains have been in part-time employment as there were an average of nearly 10,000 more workers employed compared to the previous year. Correspondingly most of the gains in employment over the last year were in the services sector, where there were 15,600 more workers, on average, than the previous year. Despite the employment gains to date, the unemployment rate has edged upward. At the end of August 2010, the year-to-date average rate was 5.7 per cent compared to 5.0 per cent one year earlier. Much of this was due to an increase in the labour force which was up almost three per cent over the previous year due to of a higher participation rate.

This year's heightened pace of infrastructure spending will begin to wane in 2011 as projects are completed. However there are several other major projects from both the public and private sector that will continue to generate employment.

Employment prospects for Winnipeg remain positive. CMHC expects the number of persons employed to grow by 1.5 per cent in 2010 and a further 1.4 per cent in 2011 in step with the province's continued positive economic climate. The unemployment rate will average 5.6 per cent over this year and next, as job creation will keep pace with increases in the labour force coming mainly from international immigration.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

Population gains continue to impress

One of the most significant factors impacting the Winnipeg housing markets is the growing population. At the end of the second quarter of 2010, Manitoba's population had expanded 1.3 per cent over the previous year, the largest rate of population gain in 39 years. Population growth has been fuelled mainly by international migration, where the Winnipeg CMA generally captures approximately 75 per cent of all immigrants. Losses through interprovincial migration slowed in 2009, however it is expected that more persons will leave Manitoba as employment prospects return to previous levels in other destination provinces. Fuelled by international migration, Winnipeg can expect to see a net migration of more than 19,000 persons through 2010 and 2011.

MORTGAGE RATE OUTLOOK

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary Winnipeg CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	12,319	11,854	11,509	11,100	-3.6	11,400	2.7
MLS® New Listings	14,490	16,050	15,478	16,000	3.4	16,800	5.0
MLS® Average Price ($)	174,203	196,940	207,341	226,000	9.0	232,000	2.7
New Home Market							
Starts:							
Single-Detached	1,870	1,930	1,505	2,000	32.9	2,050	2.5
Multiples	1,501	1,079	528	1,300	146.2	1,200	-7.7
Starts - Total	3,371	3,009	2,033	3,300	62.3	3,250	-1.5
Average Price ($):							
Single-Detached	306,080	342,885	369,320	385,000	4.2	400,000	3.9
Median Price ($):							
Single-Detached	286,285	311,443	336,960	351,000	4.2	365,000	4.0
New Housing Price Index (% chg.)	11.8	10.2	2.5	4.6	-	4.0	-
Rental Market							
October Vacancy Rate (%)	1.5	1.0	1.1	1.2	-	1.4	-
Two-bedroom Average Rent (October) ($)	740	769	809	835	-	860	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	390,500	395,900	395,600	401,500	-	407,100	-
Employment Growth (%)	2.2	1.4	-0.1	1.5	-	1.4	-
Unemployment rate (%)	4.7	4.3	5.4	5.7	-	5.4	-
Net Migration [1]	6,018	8,414	9,000	9,400	4.4	9,800	4.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

(1) The 2009 migration data is a forecast.

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.

The forecasts included in this document are based on information available as of October 08, 2010.

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